

DATE: December 4, 2008

BULLETIN: 2008-CU-03

TO: Missouri state-chartered credit unions

SUBJECT: General Economic Conditions

In 2008, financial institutions of all varieties have faced challenges unlike any seen in many years. While credit unions have generally remained safe and sound throughout this year, challenges certainly exist in their operations, the balance sheet and the income statement. One of the purposes of this bulletin is to highlight the continued strength of credit unions, collectively, while at the same time, stress the need for effective management in these trying times.

Credit unions by their nature are somewhat sheltered from the most serious reported culprits of the breakdown in financial markets. They are limited by regulation to a maximum of 12.25% of their assets in reportable commercial loans. In reality, Missouri state-chartered credit unions have less than 1% (0.93%) of their total assets in reportable commercial loans. Likewise, credit unions are limited in their investment ability. Thus, the sharp recent decline in the equity market has not had a direct impact on the balance sheet / income statement. Further, credit union management has typically avoided riskier ventures, instead successfully concentrating on diversifying the loan portfolio among its entire membership.

While the statements in the above paragraph point to possible reasons why credit union failures have not been prevalent in the news, there are many challenges facing them in today's marketplace. Through September 30, 2008, nearly 30% of all Missouri state-chartered credit unions have reported negative profitability. Shrinking net interest margins, increased provision expenses and increased operating expenses are leading to these figures. However, despite the obvious concern with the previous number, we do note that credit union's net worth remains high at 11%. Credit union's ability, thus far, to weather the storm, points to why a strong net worth cushion is essential.

As stated earlier, one purpose of this bulletin is to stress the need for effective management of your credit unions. Realizing this may sound over simplistic, credit unions are stressed not to take a material risk to the long term net worth and stability of the credit union in order to boost short-term earnings. We have recently noted a substantial uptick in different types of investments on balance sheets and calls regarding different types of investments, which could be termed as "exotic". While lending demand may be low, we urge you not to place the credit union's assets in investments or loans that are beyond management's complete comprehension and/or bring undue risk to the balance sheet. We acknowledge that management expertise and risk tolerance differs widely throughout the credit union industry.

We urge you at any time to call your examiner or the Jefferson City office if you have any questions or concerns.

The September 2008 Missouri state-chartered Consolidated Balance Sheet is available at www.cu.mo.gov/pdfs/FPR_507228.pdf

The September 2008 Consolidated Balance Sheet for all federally insured credit unions is available at:
www.cu.mo.gov/pdfs/FPR_507229.pdf

You may review the data for any federally insured credit union at:

www.ncua.gov/indexdata.html